



LAND USE RESEARCH  
FOUNDATION OF HAWAII  
700 Bishop Street, Ste. 1928  
Honolulu, Hawaii 96813  
Phone 521-4717  
Fax 536-0132



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July 6, 2005

The Honorable Donovan Dela Cruz, Chair, and Members  
City Council  
City and County of Honolulu  
Honolulu, Hawaii 96813

BY FACSIMILE: 527-6910

**RE: BILL 46 RELATING TO AFFORDABLE HOUSING CONDITIONS IN UNILATERAL AGREEMENTS**

I am Dean Uchida, Executive Director of the Land Use Research Foundation of Hawaii, testifying in support of Bill 46, which will extend Ordinance 99-51, as amended by Ordinance 01-33, from August 5, 2005, to June 30, 2005. This affordable housing measure has been a success for both housing consumers and the homebuilder community, and we urge your favorable consideration.

In July of 1999 this Council passed Bill 50 which was enacted as Ordinance No. 99-51. This ordinance requires developers to continue to provide affordably priced housing pursuant to the conditions of the unilateral agreements attached to their zoning approvals. However, the ordinance suspends (1) income and other restrictions on buyers of affordable housing units, and (2) various restrictions on transfer of these units such as buyback and shared appreciation provisions. As set forth in the findings of Ordinance 99-51, these restrictions and controls actually were having a negative effect on the construction of new residential housing on Oahu, both affordable and market rate. Essentially the free market for new owner-occupant housing in Honolulu was so close to the "affordable" price-controlled, income-controlled residential market that buyers did not want to buy the restricted units. It is typical in unilateral agreements to require a mix of affordable and market units. Thus this inability of developers to sell affordable units resulted in the construction of fewer overall housing units on account of these phasing requirements.

As set forth in "A Report on the Implementation of Ordinance No. 99-51" by the Department of Planning and Permitting (DPP), Ordinance 99-51 achieved its objectives. Developers built a substantial amount of affordably priced housing since the ordinance took effect, and "this ordinance has not hindered low and moderate income families from participating as buyers in today's housing market." Major homebuilders such as Castle & Cooke, Gentry, Haseko, and Schuler all submitted housing data to the confirming the validity of the approach taken in Ordinance 99-51. Accordingly, Ordinance 01-33 was enacted on July 2, 2001, to extend Ordinance 99-51 for another four years. This time period allowed for the planning, subdivision, site development, building, marketing, and sales of additional residential housing projects.

Misc. Com. No. 1775

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In response to Ordinances 99-51 and 01-33 and a request from the DPP, we assisted SMS Consulting in the preparation of a "Market Study in Response to Ordinance 01-33, City and County of Honolulu." [copies of the Final Report were distributed to the Council yesterday]. The purpose of the study was to assess whether or not to continue the existing moratorium on affordable housing unilateral agreement conditions for residential developments on Oahu.

The study provides some basic information on the historical housing market on Oahu and discusses prior attempts by policy makers to address a need for affordable housing on Oahu.

On the surface, the data appear to support DPP's assertion, in its February 28, 2005, "Report on Affordable Units and Buyers under Ord. 01-33," that when the buyer qualification restrictions were suspended, sales of affordable units were made to families who would not have qualified with the restrictions in place. However, we disagree with the DPP recommendation that the moratorium be lifted and that buyer eligibility qualification provisions be reinstituted on affordable units. The current shortage of affordable housing on Oahu is a symptom of a larger problem, namely the lack of housing in general for all segments of the market.

From a public policy perspective, the SMS/LURF report provides policy makers with more insight to what is actually happening in the market, and more importantly, what influences the market. Interest rates, income, and construction costs all have an impact on the housing market. The study found that affordably priced homes up to 10 years ago are generally priced in the affordable range today. Thus, unless the seller of the home has increased income or buying power (due to lower interest rates), the seller would end up purchasing a newer, affordable house today, all things being equal. However, this may not hold true if supply is restricted and buyers are left with limited choices.

One of the major factors contributing to the affordable housing crisis in Hawaii today is our land use entitlement system. Providing more supply of housing in all segments of the housing market is one way to address the affordable housing crisis. As more homes are made available, existing homeowners may move up to larger, more expensive homes and free up existing inventories. Without adequate supply of product at all segments of the housing market, competition and demand for a limited supply will drive up prices.

The Council will be wise to consider the information provided in our affordable housing market study and, perhaps, take a broader perspective of the housing market in its attempt to provide more affordable housing. Rather than focusing on continuation of existing affordable housing conditions and restrictions, we believe that the City and County of Honolulu should consider developing less costly design standards for affordable or worker housing, and ways to shorten the entitlement process to open up more lands for all segments of the housing market.

We support Bill No. 46 and are available to work with the Council and Administration in coming up with an affordable housing policy that works for the residents of Oahu.

Thank you for this opportunity to express our views.